

Designing the Perfect Investor: Not All Money is the Same

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Governor's Office *of*
Economic Development

Presented by Nicole Toomey Davis - GOED

Designing the Perfect Investor

First Company

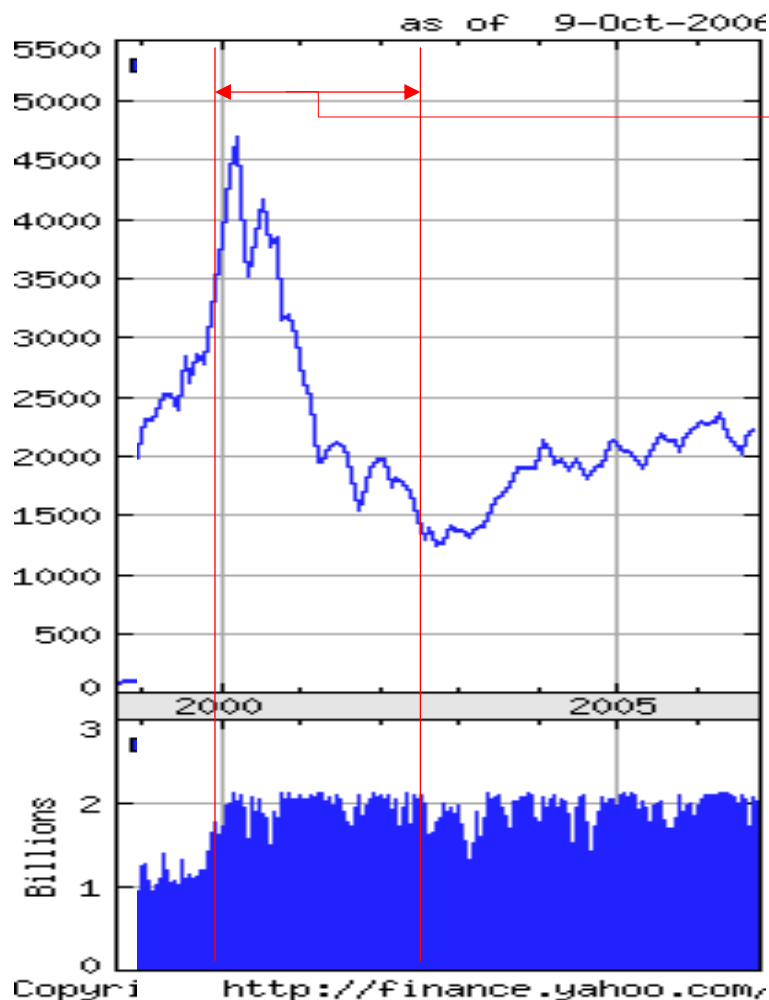
DoBox, Inc.

- OEM Software—Home Server Gateway and Parental Control
- Founded in 1999—3 founders
- First \$1 million closed in January, 2000
 - High-end “Angel” investors from across the U.S.
 - \$2.6 million total investment from same investor group



Designing the Perfect Investor

Skiing the Avalanche—NASDAQ



DoBox

Jan 2000 — March 2002

Jan. 2000 - High 4303

Mar. 2000 - High 5132

April 2002 - Low 1640

Oct 2002 - Low 1108



Designing the Perfect Investor

Why Design Your Investor?

- Investors (and their money) are not all the same
- Reaching out to the RIGHT investors dramatically improves your chance of success
- Designing your investor is harder upfront, but is more likely to yield success
 - Saves a lot of time and money
 - If you “flail”, you may poison the well



Designing the Perfect Investor

Key Elements of Designing Your Investor

- Be in the market
- “Know thyself...”
- Explain yourself (the tools of the trade)
- Align with your theme
- Identify investors who get your theme
- The Designer Investor!
- Dialing for dollars: How do you find investors?
- Getting to “Yes!” from investors
- Take more money than you think you need



Designing the Perfect Investor

Be in the Market

- Know your market
- Know, and talk to, your customers
- Know your competitive and substitute landscape
- Know who all the players are
- What is the market framework?
- Know the influencers

DOES ANYBODY CARE?
(Who? Prove it.)



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Know Thyself

- What? When? Where? How? Why? Who?
- What pain are you trying to address?
- Does anybody care?
- What do you bring to the table?
- What help do you need?
- How are you going to make money for your investors?
- Fire in the belly! (a.k.a. killer instinct)



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Know Your Big Friends

- Who are your Big Friends?
- Big players who WANT/NEED you to succeed?
 - Customers
 - Partners
 - Suppliers
 - Industry
- They are CRUCIAL for establishing credibility and for success in execution
- Customers are the best and most important big friends
- Do the Dogs want to eat this dog food?



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Explain Yourself: The Tools of the Trade

- You really, really need an elevator pitch!
- One-paragraph intro/email pitch
- One-page executive summary
- Three- to five-page “expanded” executive summary
- Investor pitch (Power Point)
- A full business plan (possibly)
 - You need all the answers in the business plan, but not necessarily all the writing



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Elevator (and email) Pitch

- Truly 10 seconds to explain yourself to everyone you meet
 - A 30-second pitch for the moderately interested
- Do the uninitiated (intelligent but uninformed) get it?
- Does it stick?
- Avoid industry-specific lingo and acronyms
- Link it to your theme
 - “Writing is God’s way of showing you how sloppy your thinking is.”

— Rafe Needleman
Editor, Webware, CNET.com



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Distilling Your Essence

- Your Name
- Company Name
- Industry/business (3-4 words)
- Business Model (3-4 words)
- Value Proposition (Why should anyone care?)
- An invitation to question (a hook), NOT a dissertation



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The DoBox Pitch

- I'm Nicole Toomey Davis
- I'm the President and CEO of DoBox, Inc.
- We're an OEM software provider to the Broadband Gateway Industry
- We let parents manage Web, Chat, Email, and Games
- By Person and by Time of Day
- From Anywhere in the Home



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Investor-Pitch Suggested Slides – 15 Max

1. Pain point / What is your point? (Education)
2. Mission
3. Team (if you wanted to do it, here would be your team attributes)
4. Technology
5. Market / Application
6. Metrics / Revenue
7. Timeline(s)
8. Competition / Alternatives
9. Partnerships / Alliances (Big Friends)
10. Exit strategy (How will the investor make money?)
11. Summary



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Align With Your Theme

- The venture industry rolls from theme to theme
- What's hot? Where do you fit? What buzz words will grab attention?
 - Read RedHerring.com, Fast Company, Wall Street Journal, VentureWire, Wired, etc.
 - Moneytree and NVCA quarterly shows “where the money is going” (www.pwcmoneytree.com)
- Identify a theme that people can use to make sense of what you are doing
- From a venture capitalist: “Venture capitalists are like 6-year old soccer players, they'll all bunch up at the ball.”



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Identify Investors Who Get Your Theme

- Every investor and every venture capital firm has an investment theme (or investment strategy)
 - What they like / understand / are passionate about
 - Who they used to work for
 - Venture firms try not to deviate from the investment strategy they sold their LP's on
 - Want to have 10 people in their contact list to help you
- Make sure they can / will invest in your region
- Venture capital is a small but national industry



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Some Theme Examples

SV Life Sciences

... provides finance to businesses at all stages of development and across the human life sciences sector... from biotechnology & pharmaceuticals to medical devices & instruments, to healthcare information technology and services.... in North America and Europe.

Foundry Group

Foundry Group is a venture capital firm focused on making investments in early-stage information technology, Internet and software startups. Our passion is working alongside entrepreneurs to give birth to new technologies and to build those technologies into industry-leading companies. We're centrally located in Boulder, CO, but we invest in companies across North America.

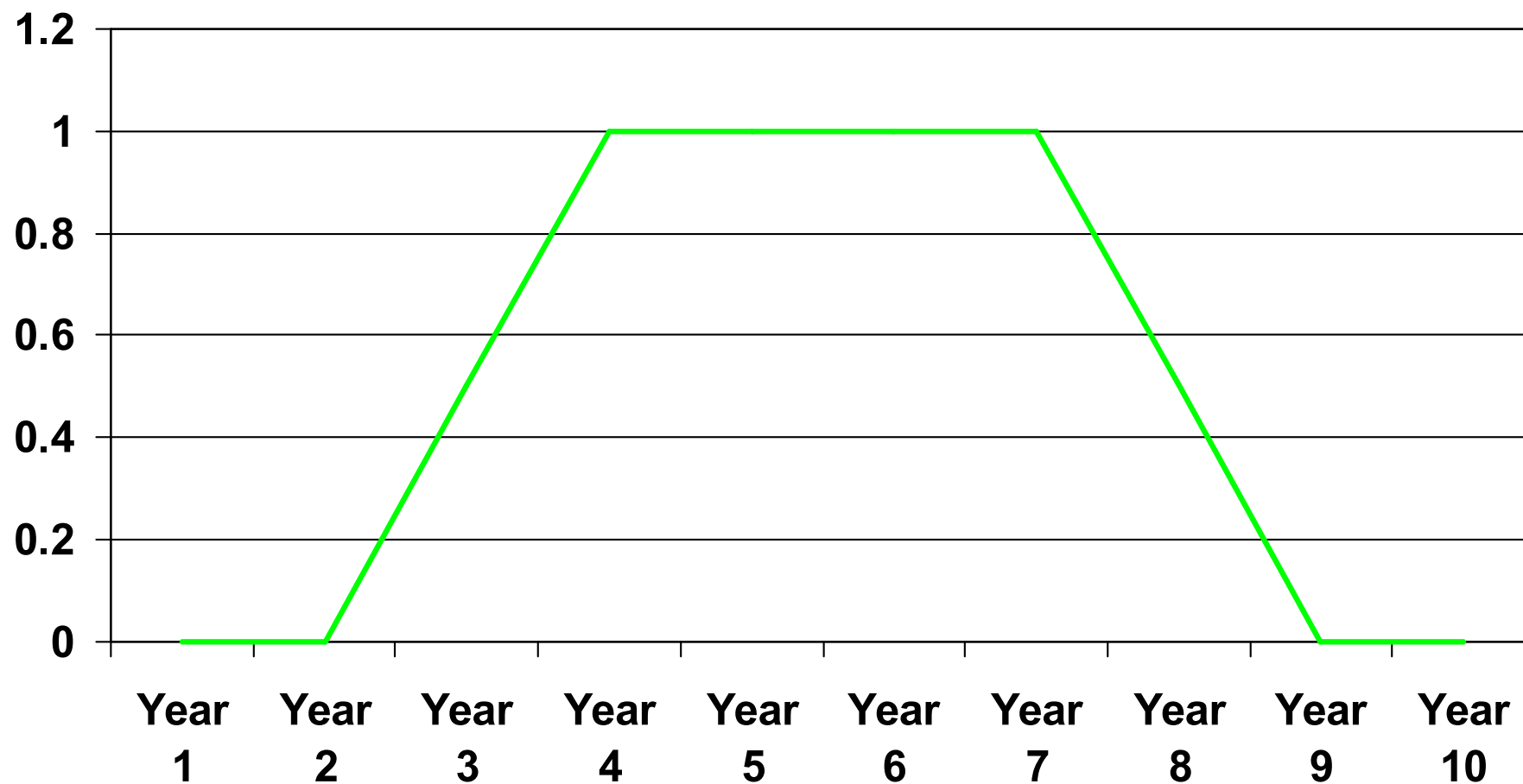
Khosla Ventures

We manage a main fund that supports early- and late-stage investments and a seed fund for developing very early-stage experiments. We focus on next-generation energy projects.



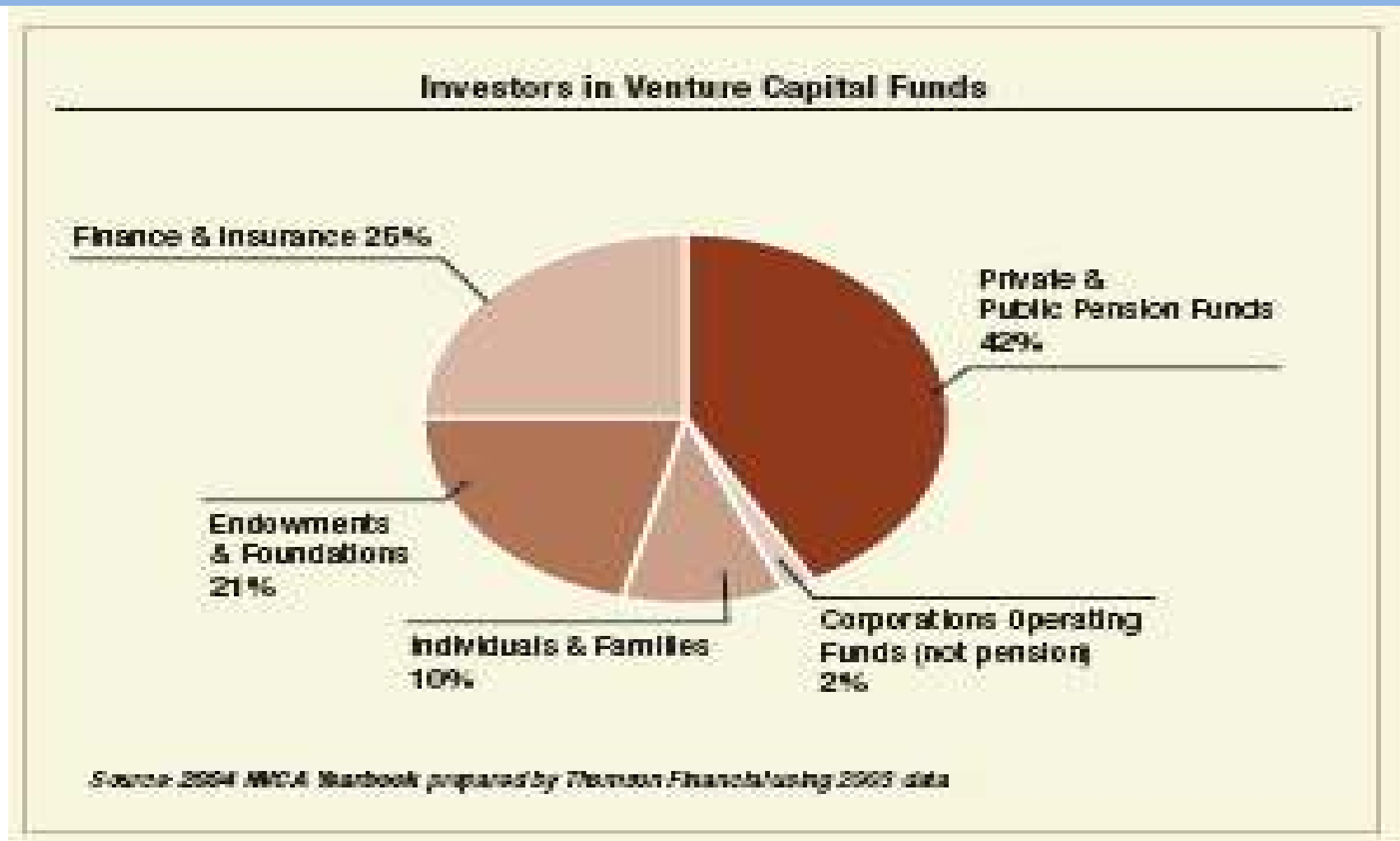
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Venture Capital Fund Life Cycle



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Limited Partners – Investors in Venture Capital Funds



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The Designer Investor

- Understands your theme
 - Has relevant background and experience
 - Has “10” people they can call to HELP you
- Can invest in your region
 - Can be national or regional firm
- Can LEAD the deal
- Has money to invest NOW in new deals
- You have a way to “get to them”
 - Personal introduction



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Dialing for Dollars: How Do You Find Investors?

- www.UtahFoF.com (visit the portfolio)
- www.TheFunded.com--for entrepreneurs
- National Venture Capital Association - www.nvca.org--See website for model legal documents
- National Association of Seed and Venture Funds—www.nasvf.org
- Watch the deal flow....
 - VentureWire Alert, RedHerring.com, Fast Company, Private Equity Week, PE Wire, TechCrunch...
 - Top lists of Venture Capitalists -Red Herring Top 200 Global VCs
 - Google and Google Directory
 - VC Bloggers (including www.feld.com...)

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Network, Network, Network

- How many networking events have you been to this month?
- How many organizations do you belong to?
- Get OUT THERE, “Get Way Out There”
- Industry conferences and events (Demo, CES, Interop...)
- “VC Beauty pageants”, local events, industry organizations
- Alumni, alumni, alumni! - School, Company, Industry....



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Some Good VC Beauty Pageants

- Provide mentoring and networking
- Wayne Brown Institute – Utah (www.venturecapital.org)
- Invest Southwest Capital Conference
(www.investsouthwest.org)
- Rocky Mountain Venture Capital Association
www.rockymountainvca.com
 - Venture Capital in the Rockies Conference
(VCIR Fall and Winter)



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The VC Strategy: Get Introduced!

- You really do need an introduction
- The scale of “emailed” business plans is overwhelming (100 come in, 10 looked at, 1 investment)
- “We believe a CEO worth their salt will find a way to get to us.”
- Find out where they used to work – anyone in your network from there?
 - LinkedIn
 - Alumni Networks
 - Personal Networks
 - Industry Networks



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Tips and Tricks

- Check the portfolio first (no competitors)
- When a VC seems really interested at a general meeting, check to see if they're already in a competitor...
“Have you invested in this sector...”
- Get a personal introduction
- Never list “the other interested VC’s”
- Check to make sure they're actively investing
- Know your competitive landscape



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Dialing for Angel Dollars

- Plan to speak to at least 100-300 contacts to close an angel round
- Offer an “Opportunity to Invest”
- Dial and email (2 new contacts a day)
- Always ask for a Referral
- angelcapitalassociation.org – Association of Angel Groups
- <http://startupnotes.com/2007/10/26/how-to-find-angel-investors.aspx>
- More entrepreneurs in Utah than there are angel investors!



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Angels

- Successful Angels are priceless
- Find successful people in the Big Leagues – their experience is key
 - Friends, Family and Fools, is there a difference?
 - Don't take money from your family
 - Don't take money from people who can't afford to LOSE IT!
- Never accept an unaccredited investor!
- \$1million is a grown up number – if you can get it, take it!



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Getting to “Yes” From Investors

- It will take twice as long to raise money as you plan (probably a year)
- What about the Farm Team Strategy?
- What if they ask: Who else is interested?
 - Ask instead: Do YOU have any other firms that YOU would recommend we talk with?
- A VC will rarely tell you no – you may do a deal later that they want in on
- It's the “junior high” theory of investing – if I ignore you long enough, you'll know I don't like you



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Mistakes Not to Make

- No such thing as a dress rehearsal
- No such thing as a “throw-away meeting”
- There ARE lots of VCs – but it’s a very small community
- Investors are always looking for a reason to say “NO”
- To a Venture Capitalist, you’re just a “peach”

NEVER let them see you sweat!



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Think Like an Investor

- A VC does not like “efficiency” in information, nor perfect markets. They’re in private equity because the markets are inefficient and they believe that gives them a performance advantage.
- VCs like to think they’re the smartest...
- VC’s don’t like to insult entrepreneurs, so the only compliment from a VC that counts is a term sheet followed by an investment at an attractive valuation

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Take More Money Than You Think You Need

- Don't waste time on anybody but the lead!
 - You can ALWAYS fill a round once you have a decent lead!
- When you raise money, target two years of cash on hand – never go below one year!
- Multiple meetings with investors are not usually helpful, unless you are moving forward at each stage
 - More people, a draft term sheet etc



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Take More Money Than You Think You Need – Part 2

- When they say “come back when you’ve....” it’s really a NO, even though it sounds like it makes sense
- Try to have “enough money” around the table at your first round for the “entire cycle”



Designing the Perfect Investor

Top 10 Lies of VCs (Guy Kawasaki)

1. “I liked your company, but my partners didn't.” In other words, “no.”
2. “If you get a lead, we will follow.” In other words, “no.”
3. “Show us some traction, and we'll invest.” In other words, “no.”
4. “We love to co-invest with other venture capitalists.”
5. “We're investing in your team.”
6. “I have lots of bandwidth to dedicate to your company.”
7. “This is a vanilla term sheet.”
8. “We can open up doors for you at our client companies.”
9. “We like early-stage investing.”
10. (He ran out of battery juice, so the Top 10 is really a lie too!)

http://blog.guykawasaki.com/2006/01/the_top_ten_lie.html



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Other Resources

- LaunchUtah.com – online magazine for Utah entrepreneurs
- www.kauffman.org and www.eventuring.org from the Ewing Kauffman Foundation
- www.privateequityweek.com (PE Week Wire)
- Personal blog - www.startupnotes.com (be sure to read about Startup Therapy TM)
- www.UtahFoF.com
- www.venturedeal.com/ Paid Venture database
- www.growthinkresearch.com/ Paid Venture database
- Business Week article on the stages of venture
<http://www.businessweek.com/smallbiz/news/coladvice/ask/sa990909.htm>

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Other Resources

"If one advances confidently in the direction of his dreams, and endeavours to live the life which he has imagined, he will meet with a success unexpected in common hours."

—Henry David Thoreau





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